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Telcos move to control e-payments space.

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The ability for eCHARGE to interface between telco billing systems and the Internet as confirmed bankers' worst nightmares. Christopher Jeffery investigates

TELECOMMUNICATIONS FIRMS, such as AT&T, NTT, Sprint, BT, Deutsche Telecom and Telecom France, conceivably have enough global clout to take control of Internet payments should they find a mechanism to link the web to their highly sophisticated customer billing infrastructure.

The arrival of eCHARGE, a one-click payments system that allows online consumers to purchase Internet goods and services and have the payment directly placed on their next telephone bill, could represent such a mechanism.

The US' largest telco, AT&T, has already signed up to implement eCHARGE, as has the UK's Cable and Wireless - a strong player in Britain and the dominant carrier in Hong Kong, through its holding in Hong Kong Telecom.

It is clear that both firms have large-scale customer databases, they are linked to most households in their respective nations and have strong links with merchants through their business telecoms divisions.

"What we are doing is transforming the telco billing infrastructure, helping the telco to become a significant player in this space and leverage their customer relationships," said eCHARGE chief executive Ron Erickson. "The big distinction between telcos and their billing infrastructure and customer relationships and the banks and credit cards people is that everybody has a phone. Everybody is in that telco database. If we stay the course here, banks should be very concerned about us," Erickson added.

The eCHARGE system needs to be web-enabled at the merchant Internet site in a similar manner to Visa or MasterCard. Merchant contracts can be signed either directly with eCHARGE or through a telco licensee.

Consumers can purchase products or services on either a 'pay-per-click' or 'pay-per-time' basis. With eCHARGE's current product, a plug-in is downloaded once an eCHARGE pay decision has been made. This takes about 45 seconds. Then a confirmation screen appears, which customers have to click to affirm that they understand the payment will be charged to their telephone bill. After clicking 'yes', the eCHARGE technology then disconnects the customer's PC from its ISP (Internet service provider), dials a number to connect with the telco billing network - which takes about another 45 seconds - and makes the charge. It then reconnects the customer to the ISP and the original screen he/she was on before initiating the payment.

During this entire process, the customer is not required to enter any information, except 'click' confirmation - something that has caused problems for online credit cards payments.

Erickson added that eCHARGE could also partner cable firms and other utilities for online payments. "We are going to where the business is. The overwhelming majority of Internet connections occur through the telephone.

That is going to change over time with the advent of broadband and cable." eCHARGE, however, faces a series of hurdles before it can achieve a seamless and successful electronic payments system.

In most jurisdictions, customers can pay by eCHARGE for digitally transferred goods and services only. Physical goods are barred in most operations areas. Even in areas where physical goods can be purchased, there is no ability to use eCHARGE in the physical world, which diminishes its overall functionality.

Customer awareness and acceptance of eCHARGE could also prove a stumbling block, according to Trintech chief executive John McGuire.

"The payments associations, Visa and MasterCard, still have such powerful brands that new systems like eCHARGE will find it difficult to develop a stronger payments product awareness," said McGuire.

This has been a problem faced by many online payments systems including CyberCash, DigiCash and Millicent, according to US payments analysts.

There is also a problem over merchant acceptance and merchant fees. "I can understand why telcos would be keen to sign up but I think the real problem will be getting merchants to accept the service and customers aware that this payments facility exists," said Samee Zafar, New-York based PricewaterhouseCoopers principal consultant for financial services and e-commerce.

Zafar stated that online merchants currently pay about 5 percent of the transaction value per credit card transaction. Larger online merchants like Amazon.com pay just over 2 percent.

According to official figures produced by eCHARGE, merchants will have to pay a minimum 8.25 percent in the US. In addition, customers will be charged 50 cents for transactions less than \$10; \$1 for transactions between \$10 and \$35; and \$2 for transactions of \$35 and over. The merchants can choose to incur this cost if they choose, according to Erickson.

"On an 'apples-to-apples' basis we would not be competitive," said Erickson. He added that on the 65 merchant sites where eCHARGE is being tested, people using the service felt more comfortable paying eCHARGE than with their credit cards.

Erickson conceded, however, that eCHARGE wants to push for more competitive fees. "We are driving in that direction," he said.

eCHARGE is attracting about 8 to 10 percent of the total payments traffic on websites where it has been successfully deployed so far. Looking ahead, Erickson said: "Aiming for 8-10 percent of all Internet payments transaction volume - a small piece of the total - can build a very big business." The firm has been in active negotiations with ISPs, keen to allow monthly payments to be placed directly on customers' phone bills.

Erickson also views many opportunities expanding beyond the North American marketplace: "The US can be very provincial. We are a credit cards-dominated society but there are many places that are not credit cards-dominated."

With eCHARGE predicted to gain significant foreign backing from Europe and Asia, it is likely that new developments for eCHARGE payments will occur in these two markets within the next 12 months.

"Yes, we will see something out in Hong Kong. Interactive TV is certainly an application that works as well," Erickson added.

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